GOOD FORM: THE ELEMENTS OF THE PERFECT DIRECT-MAIL PITCH

Inc®

THE MAGAZINE FOR GROWING COMPANIES

'SMART' START-UPS

WHY TODAY'S NEW BUSINESSES HAVE A WHOLE NEW LOOK

COMPANY PROFILE: Maintaining Peak Performance over Time

ROAD WARRIORS: How to Get Face-to-Face with Your Customers

PLUS: Why *Every* Business Should Be a Family Business

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COVER PHOTOGRAPH
by
JAMES SCHNEPF

RESULTS FROM
DECEMBER

The Inc. FaxPoll™

IS BURNOUT KILLING YOU (AND YOUR BUSINESS)?

Yes—although each of you had a different definition of burnout. Some talked about personal stress, while others treated this poll as a referendum on the recession and the state of the economy.

FEELING BURNED OUT?

Yes	62%
No	38%

A lot of you have just about had it with the process of starting and growing a business. "I thought over the years I would work fewer hours. I find myself working harder," complained one. "I resent the time my business takes away from my family and personal life," said another. Some offered suggestions for learning to cope: "We need to learn to relax. More hours does not translate into high productivity." Ultimately, someone suggested, burnout may be a by-product of a bad match. "If you are feeling burned out, you may have gone into the wrong business." Happily, very few of you reported that you had no one to turn to (5%). Many of you use relationships at home and at work to stem the tide of stress. There also seems to be a lot of networking going on, as 52% of you turn to other business owners. Relatively few of you talk to your customers about what's wrong with your business (17%). One major resource that seems to be overlooked is therapy. Perhaps there's still a stigma attached. But, as one of you put it, "If it weren't for therapy, I'd be screwed!"

HAS YOUR BUSINESS UNDERGONE ANY OF THE FOLLOWING CHANGES IN THE PAST TWO YEARS?

Decreased profits	58%
Decreased sales	54%
A cost-cutting campaign	53%
Increased sales	38%
Layoffs	37%
Increased profits	29%
Decreased employee hours	25%
Other	4%

The cause of all this burnout seems to lie in waning sales and profits, which are in turn caused by the downturn in the economy. Not surprisingly, those of you who weren't burned out were more likely to report increased sales (59%) and profits (46%). Quite a few of you focused on the recession in your comments. "I have never experienced such a bad business environment" was a typical comment. "People are dropping like flies—companies, too!" "I've never struggled so hard or been so concerned for our country's economy." All those concerns divert attention from other areas. "The shift to cost cutting kills new revenue ideas."

WHAT ARE YOUR MAIN BUSINESS CONCERNS?

	TODAY?	TWO YEARS AGO?
Increasing sales	54%	64%
Surviving	42%	24%
Profits	41%	43%
Cutting costs	24%	15%
Securing adequate capital or credit	19%	25%
Keeping my work force happy	19%	25%
Other	7%	6%

Have things gotten worse lately? It would seem so. While profits and increasing sales remain among your primary business concerns, a larger percentage of you now see survival as a much more important issue than you did two years ago (42% versus 24%). Among those who reported feeling burned out, survival is the top concern today (55%). Ouch. No wonder you're feeling the crunch. Some of you couldn't see any relief in sight: "It's going to get worse, too!" Others took a more cavalier approach: "The period 1979 through 1981 was a recession. This is more like a burp." At least one respondent chalked the whole thing up to experience. "We're going to be stronger in the long run—we're learning how to survive."

51%

YES

DO YOU SENSE THAT EMPLOYEE MORALE IS LOWER THAN IT WAS TWO YEARS AGO?

No

49%

Is employee morale at a low ebb? Your answers were split pretty evenly, although the scales seemed to tip when it came to top managers (as opposed to owners, CEOs, and vice-presidents), who are presumably closer to employees on a day-to-day basis—68% of them reported lower employee morale. Those who said they felt burned out tended to answer yes to low employee morale (66%), while most of those who said no to burnout also said no to low morale (78%). While no causal relationship can be assumed, a key way to keep burnout in check may be to keep employees happy, thus lessening the drain of being surrounded by negativism—admittedly, no mean feat. As one of you put it, "It's very difficult to keep motivating myself and others."

THE INC. FAXPOLL™ IS SPONSORED BY XEROX

(SALES TRAINING, from page 93)
a new way to "turn complaints around" during actual sales calls, then reporting back to the class. The program also includes instruction on time management, etiquette, and communication skills (such as writing better letters).

About 12 of the 15 salespeople at Octocom have been through K Training, which consists of five one-day sessions over a period of three months. And the payoff has been evident. One junior salesman improved his performance dramatically by using silence and counter-objection techniques he had learned. The beauty of the approach, says Davison, is that "it's continual and self-checking." —*S. G.*

RESOURCE

Catalog Software

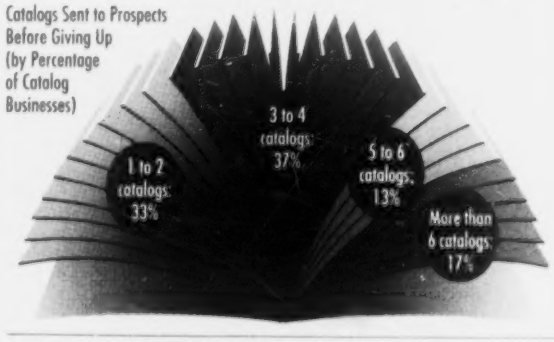
Some catalog houses are saving money by doing more in-house. These days that's easier to do, given the proliferation of catalog software that integrates the tasks of order entry, fulfillment, inventory, list maintenance, and response analysis. *The Guide to Catalog Management Software* (215-576-5000) makes picking a package much less daunting. Written by *Catalog Age* software reviewer Ernest Schall, the guide is available in three volumes, organized by hardware type: microcomputer ($95), Unix/Pick ($145), and minicomputer ($295). The volume on micro software ranks 10 programs and presents a detailed analysis of each, along with sample screens and reports. —*S. G.*

▼ ▼ ▼ ▼ ▼

PROSPECTING

How Much Is Enough?

Catalog maverick Paul Hawken cautions, "There are no benchmarks," about the optimal number of catalogs to mail before giving up on a prospect. "It's all a value call." When looking at mailing costs, catalog businesses have to consider their average order and how customers behave once they come aboard. "What's the lifetime value of the customer? That determines whether you should spend more or less," says the founder of Smith & Hawken, in Mill Valley, Calif.


Catalogs Sent to Prospects Before Giving Up (by Percentage of Catalog Businesses)
1 to 2 catalogs: 33%
3 to 4 catalogs: 37%
5 to 6 catalogs: 13%
More than 6 catalogs: 17%

Source: "1992 *Catalog Age* Report" on catalog businesses, 43% with sales of less than $1 million; Stamford, Conn.

DIRECT MAIL

Fighting the War on Postage

THE RISE IN POSTAL RATES has taken a bite out of small and large catalog houses alike. But a number of catalog businesses are biting back. Some marketing tactics to offset the high cost of mailing:

Rue de France, a Newport, R.I., catalog house specializing in lace curtains, is sending out fewer catalogs—even to its best customers and better prospects, says president Pamela Kelley. Kelley no longer sends more than one catalog to those who ask for it in response to an advertisement, even though "inquiries" are regarded as hot prospects. Instead, Rue de France sends just one catalog—and two follow-up letters with special offers. It's more personal *and* more profitable, says Kelley. (See chart for a look at how many issues other catalog businesses mail.)

Calyx & Corolla, an $11-million mail-order flower business in San Francisco, has found alternatives to mass mailings. The company ran a promotion with Bloomingdale's for Mother's Day. The department store ran advertisements in the *New York Times* and the *New Yorker* ("Give Mother the Vase, and We'll Send Orchids"). Calyx & Corolla supplied the flowers. Both companies used the names of those who responded for a targeted mailing. Calyx CEO Ruth Owades says such joint promotions typically yield better response rates than cold mailings.

The Sharper Image, a high-tech-gadget catalog business in San Francisco, figures each duplicate name on its mailing list that's not caught by its computer is worth at least 10 bucks. So every person who calls the company to report receiving more than one catalog a month gets a $10 gift certificate. The company eliminates 1,000 to 1,500 duplicates a month that way. When you're mailing 2 million catalogs a month, it adds up.

Performance Bicycle, of Chapel Hill, N.C., slapped a large red "Last Catalog" sticker on its holiday issue, warning recipients that if they wanted to continue to receive the catalog, they had to become customers. To make it easier, the company also printed an 800 number for gift ideas on the cover of the catalog. The abrupt-warning tactic is helping Performance weed out everyone but the serious bike shoppers, says Burt O'Malley, head of marketing.

The Fox Valley Spring Co., a $1-million maker of industrial springs in Appleton, Wis., wanted to grease the wheels for its initial catalog mailing, so it first sent out a glossy postcard announcing, "A New Spring Company Has Sprung into Business." On the back was a written invitation to call for the company's catalog. The responses gave Fox Valley a targeted list for a more costly catalog mailing, and gave the company its first set of customers: 5% of those who received the postcard alone put in orders, and 10% of the postcard recipients called for the catalog. —*S. G.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

WORK FORCE

ADA Hiring Incentives

THOUGH THE AMERICANS WITH DISABILITIES ACT (ADA) MAY prove especially costly to small businesses (see "Preparing for the Americans with Disabilities Act," January 1992), you don't have to bear the brunt of the expenses all by yourself. The government will chip in, either through tax breaks or with financial aid. Read on:

• **Tax breaks.** Employers with 30 or fewer full-time employees or revenues of less than $1 million are eligible for the Disabled Access Credit (DAC, Section 44, Internal Revenue Code). To get it, they must spend $250 to $10,250 to comply with the ADA by removing barriers or installing interpreters, readers, and other forms of assistance to people with handicaps. The maximum credit is $5,000 a year.

Businesses may deduct up to $15,000 for making a facility or public-transportation vehicle more accessible, under Section 190, the Architectural and Transportation Barrier Removal Deduction.

For more information on these two tax breaks, contact Mark Pitzer at the Internal Revenue Service at 202-566-3292, or a local IRS office.

• **Hard cash.** A company that works with a local vocational-rehabilitation agency (funded by federal and state government under the Rehabilitation Act of 1973) can receive partial reimbursement for the wages of disabled employees. The amount and duration of the reimbursement is subject to negotiation. For more information contact your local vocational-rehabilitation agency, usually found under Rehabilitation or Vocational Rehabilitation in state-government listings in your phone book.

Under the Job Training Partnership Act, an employer can set up on-the-job training and be reimbursed for 50% of the first six months of the wages of an eligible disabled person. For more information contact your chamber of commerce.

More details on all of the above are available from the President's Committee on Employment of People with Disabilities (1331 F St., NW, Washington, DC 20004-1107, 202-376-6200) in its free booklet *Employer Incentives.*

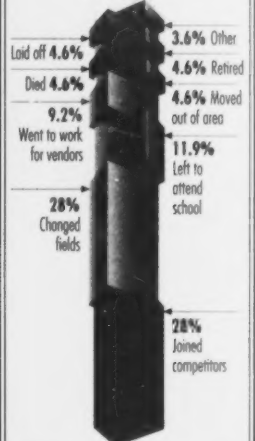
—*E. E. S.*

TURNOVER

Where Do Employees Go?

When employees depart Inc. *500 companies, they most frequently land in a competitor's company or in a different field altogether. The next most common destination is school, which also represents an exit from a particular industry. So employers might be able to cut turnover significantly by doing a better job of making sure the interests and goals of their hires are well matched with the industry itself.*

Reason employees left company . . .



Source: Based on a survey of *Inc.* 500 Conference attendees, June 1991.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

RESOURCES

Just How Independent Are Those Workers?

If you're confused about whether or not your independent contractors are indeed independent (see "Legal Briefs," below), consider that—

BNA Plus (800-452-7773, 202-452-4323 in Washington, D.C.), the Bureau of National Affairs' research arm, can provide you with resource material on the difference between employees and independent contractors, for $23 plus $5 shipping and handling.

Paladin (201-584-9488), a labor-relations consulting firm in Flanders, N.J., will send you a checklist of the 19 factors the IRS considers in evaluating a worker's status, for $5.

The IRS will rule on the employees in question if you file a Form SS-8 with the district director at your IRS district office. —*E. E. S.*

LEGAL BRIEFS

Protecting Independent-Contractor Status

IT'S WELL KNOWN THAT THE minimalist company's favorite worker—the independent contractor—is under assault by the Internal Revenue Service. The tax collector is hunting for an estimated $8 billion in payroll taxes forgone because workers have been misclassified. What's not so widely appreciated is that midsize and small companies are among the most vulnerable. "Larger businesses tend to know their rules better," says Janet Goldberg, a partner at Sachnoff & Weaver, a Chicago law firm.

Small businesses often don't—and they're more likely to let employees drift into intermittent working arrangements. Describing a worker as an independent contractor also saves companies a bundle: pension, group health, and workers' compensation expenses, as well as social-security and unemployment taxes.

The most common mistake employers make? "A lot of companies are treating workers as independent contractors, but they have no written agreement with them," says Suzanne McCarthy, also a partner at Sachnoff. Contracts should address the central issues that determine whether a worker is truly an independent contractor, and should specifically include—

• A statement that the independent contractor is not entitled to employee-benefits programs.

• A joint-severability clause stating that if part of the contract is struck down, the rest of it survives.

• Acknowledgment that the independent contractor is free to work elsewhere at any time.

The other most common mistake is for companies to assume that because a worker toils at home or maintains unusual working hours, that person is an independent contractor. Actually, such workers may be technically considered part-timers, eligi-

(INTERNATIONAL BUSINESS, from page 103)
to one of the biggest cost components relating to any foreign sale," says Mayorga. Before bidding on a foreign job, his salespeople must consult insurance brokers who live in the relevant country or are U.S.-based specialists in the region. The job isn't priced until a solid insurance quote comes in.

• **Taxes.** Because R&E requires its foreign customers to make payments in dollars directly to its Wilmington, N.C., headquarters, only U.S. taxes must be factored into foreign bids. "I was afraid we'd be overwhelmed if we had to worry about different tax laws and rates in different countries," Mayorga explains. For companies that don't follow this strategy, it's essential to add an accountant's estimate of foreign-tax liabilities to all price quotes. —*J. A. F.*

INSURANCE

Making Insurance Cost Shifting Less Painful

WITH NO END IN SIGHT TO health-care-cost inflation, many companies have concluded there's no way to avoid some type of cost shifting—usually to employees, who must pay higher deductibles and a larger percentage of nonreimbursed expenses. (See "Cost-Containment Strategies," below.) And that can wreak havoc on employee morale.

Knox Semiconductor, a Rockport, Maine, manufacturer with 40 employees, opted for a more constructive approach: at the same time the company introduced insurance-cost-control measures, it began providing each employee life insurance, a mutual-fund savings account, and short-term and long-term disability coverage. And because of the unusual way the company financed those benefits, it wound up ahead in overall cost savings.

When John Morey, president of Knox Semiconductor, sat down to look at his insurance coverage in 1989, it was costing him $80,000 a year. "The same exact coverage for the same number of people was projected to cost $170,000 by 1991," he says. So with his insurance broker, he came up with cost-saving measures, which included partially self-insuring medical benefits, and a higher deductible for employees. Savings kicked in immediately. In 1990 the price of coverage stabilized at $80,000, and in 1991 it was $110,000.

To simultaneously finance the new benefits, Knox started contributing $6 per employee weekly into a mutual fund that's administered by the same insurance company that handles the rest of its coverage. Employees must contribute $6 as well, which is deducted from after-tax weekly salaries. "Of that $12, we use $5 to buy each employee a whole-life insurance policy," says Morey. The longer an employee works for Knox, the larger that death benefit will grow. Employees that leave the company take the policy with them.

The rest of the joint weekly contribution stays in the employee's mutual fund until he removes it to pay off his deductibles, nonreimbursed medical charges, or any other personal expenses. If employees decide to empty their accounts, they'll have to dig into their pocketbooks to pay off any medical bills the company doesn't cover.

"We spend a lot of time now making sure people understand the benefits of all the coverage we provide, including the paycheck protection that comes from disability coverage," Morey says. There are other benefits as well: the company has saved so much money through the new system, mainly thanks to its switch to partial self-insurance, that it can still afford to reimburse 80% of most workers' medical expenses. —*J. A. F.*

COST-CONTAINMENT STRATEGIES

A survey by the Society for Human Resource Management found that small and midsize businesses are trying a vast range of approaches to control their health-insurance costs. (For the percentage of companies trying each approach, see columns A.) Unfortunately, many of those approaches haven't yet proved very effective, as seen in the relatively low effectiveness ratings that employers who use each strategy provided. (For percentage trying the strategy who found it worked, see columns B.)

	Employ fewer than 100		Employ 100 to 500	
Cost-control measure	**A**	**B**	**A**	**B**
Precertification of admissions	45%	40%	62%	30%
Requiring second opinion	44	22	58	16
Improving employee awareness	35	13	48	15
Higher deductible	23	19	28	32
Special pretax spending accounts	17	67	27	40
Reducing benefits	15	19	18	27
Utilization reviews	13	13	32	34
Employee-assistance programs	12	5	25	19
Improving data analysis	12	0	18	19
Instituting HMO	12	53	23	29
Wellness/fitness programs	11	0	23	22
Preemployment medical exams	11	50	23	33
Instituting PPO	9	38	16	32
Choices/cafeteria-style plan	9	77	13	46
Requiring outpatient care	8	15	16	35
In-house medical service	3	0	3	29

Source: "Health Care Cost Containment Survey," Society for Human Resource Management, Alexandria, Va., 1990.

THE AMERICAN DREAM

BUSINESS FOR SALE—HAWAIIAN CHARTER YACHTS

THE BUSINESS A charter-yacht service selling vintage sailing experiences to visitors. Two elegant vessels, a 62-foot oak-and-teak "lady" and a 71-foot yawl of pine and mahogany, provide morning and sunset sails (which include diving and dining) seven days a week for up to 30 passengers per boat, at $56 to $115 per person. The five-year-old business caters to tourists and corporations, from the United States and elsewhere, advertising its services through tour desks and hotel tourist briefings. Payroll includes four key personnel and an operational crew of 24.

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$1.15 million	$1.24 million	$1.20 million
Recast earnings before interest, taxes, depreciation, and owner compensation	$222,000	$224,000	$198,000

* projected

PRICE $2.9 million

OUTLOOK Trends in the Hawaiian charter-sailing business parallel the state's overall tourism fortunes, and after a rough 1991 (the Gulf War scared people off travel), the number of visitors to the islands is expected to resume its 5% to 8% annual growth rate in 1992. At last count, one-half of Hawaii's 7 million annual visitors could be classified as likely sail-cruise customers. There's plenty of competition for them—about two dozen operators sail from Honolulu alone—but this charter's profit margin is excellent.

PRICE RATIONALE The seller values the hard assets at $1.9 million ($1.8 million for the floating ones, $100,000 for office equipment and supplies). Experts suggest this is ludicrous, and that the market value of the boats alone would be closer to $200,000 apiece. Earnings multiples for charter-yacht businesses range anywhere from 3 to 12, and sources value this business at no more than 6.

PROS Sailor's delight: You'd be captain of splendid ships in a class by themselves. (One formerly belonged to Marlon Brando.) You'd be the beneficiary of recently negotiated contracts with 19 Japanese tour groups, which could boost revenues 30%. And you'd live in Hawaii.

CONS Sailors take warning: Hawaii's charter waters are infested with more than one kind of shark—the elements, the economy, fickle consumers, and cutthroat marketers would threaten to capsize your venture. Which is overpriced in the first place.

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Venture Planning Associates (808-526-1277).

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